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SUBJECT: SRI LANKAN COMMERCE MINISTER RESPONSE TO USTR
LETTER ON DOHA

REF: SECSTATE 6662

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1. (SBU) Summary: Sri Lankan Commerce Minister Karunanayake's response to Ambassador Zoellick's letter on Doha next steps can be summed up as: "I agree...with certain considerations for Sri Lanka." With plans underway for a meeting between USTR Zoellick and Karunanayake in Singapore next month, Post suggests USTR take the opportunity to push for explicit and public GSL concurrence with the major initiatives outlined in USTR's letter, with the hopes of influencing other developing countries. End Summary

2. (SBU) Post received a written response to USTR Zoellick's January 11 letter (reftel) on Doha next steps from Commerce and Consumer Affairs Minister Ravi Karunanayake (entire text contained in para 4 below). The following are highlights from Karunanayake's letter:

- US leadership role important;
- Agree we should focus on core market access topics: agriculture and goods and services;
- Agree with need for a date for elimination of export subsidies;
- Agree with need for cap and reduction of all forms of trade distorting domestic support, but should recognize special needs of developing countries with low bound tariffs and who do not distort markets (Note: Sri Lanka is a small market with low bound tariffs and domestic ag support programs.).
- Perception exists that blended formula on tariff cutting would lead to deeper tariff cuts for developing nations. Need to find a methodology acceptable to the entire membership. In principle, Sri Lanka supports capping high tariffs.
- On non-agricultural market access (NAMA) - agree tariff cutting should include sufficient flexibility; sectoral negotiations integral, should explore USTR proposal for middle ground approach - with flexibility for developing countries who have unilaterally undertaken substantial tariff reductions (Note: as Sri Lanka has done).
- On services, should focus on market access components on service negotiations; could agree to near-term goal of meaningful offers from a majority of WTO members.
- Agree with need for pragmatic approach on Singapore Issues. Sri Lanka supports unbundling, focusing on trade facilitation and, if possible to reach consensus, transparency in government procurement;
- Should break away from conventional approach to special and differential treatment. Sri Lanka supports approach of providing flexibility for countries who have specific problems related to specific negotiating areas;
- Applaud US efforts, everyone needs to be flexible and negotiate. Endorse proposal for meeting in September (sic) in Hong Kong (Note: post presumes September was a typo and December would be fine with the GSL).

3. (SBU) Karunanayake did not explicitly address USTR's proposal for a developing country General Council chair, but Post is confident such a proposal would be acceptable to the GSL. With a potential meeting between USTR Zoellick and Karunanayake scheduled for February 14 in Singapore, Post believes it would be worth pressing Karunanayake for explicit, public support of USTR's goals, in an effort to influence other developing countries to come along. Sri Lanka remains a strong supporter of the Doha round agenda and would like to see progress in the WTO to help cement the reforms it is making at home.

4. (SBU) Minister Karunanayake's letter to USTR Zoellick:

Begin Text:

Hon. Robert B. Zoellick
United States Representative
Office of the USTR
Washington.

Dear Ambassador Zoellick

I was indeed delighted to receive your letter of 11th January 2004, sharing your reflections and perspectives on where we stand on the Doha Development Agenda and ideas on how we might advance together to achieve our common objective of a successful and timely conclusion of the DDA. At a time when a majority of the membership of the WTO is resigned to pessimism that year 2004 will be a lost year for the WTO in the absence of injecting a sense of urgency to the negotiations, and demonstration of constructive leadership, your letter to the Trade Ministers of the WTO has injected much needed momentum into the stalled two year old talks. At this critical juncture, sending this positive message to the membership of the WTO that the US, as a key architect of the post world war trading system and a leader in the pursuit of successive trade liberalization, once again prepares to play its traditional leadership role in promoting trade liberalization is indeed important.

On substantive issues, I share your view that we have laid some useful foundation in Cancun and that following December senior officials meeting, key negotiating areas have become clearer to us. However, we need now to engage positively to take crucial decisions, so that the framework for negotiations as you envisage could be agreed to by mid year.

I share your perception that we are most likely to succeed in our common pursuit if we focus our work on the core market access topics viz: agriculture, goods and services as these areas offer the most significant gains for the world economy in general and to developing countries in particular by providing improved market access opportunities. I also agree that a high level of ambition in these areas could also contribute to stimulate growth and contribute to alleviating poverty in developing countries. Ambitious results in agriculture are essential for the DDA to proceed and succeed. I share your view that without achieving concrete results and a breakthrough in agriculture, we cannot progress in overall negotiations to lower trade barriers across the board. We need to agree in principle, on a date for elimination of export subsidies although a target date could be left until a latter stage of negotiations. We also need to agree to cap and reduce all forms of trade distorting domestic support, and should give due recognition in the framework to be agreed to allow a reasonable number of products for certain developing countries in particular for those who have low bound tariffs and who do not distort markets. On the more difficult issue on tariff cutting formula, there appears to be genuine apprehension in developing countries on the proposed blended formula as the proposed approach could lead to an inequitable outcome in that developing countries would be undertaking deeper tariff cuts. We therefore, need to work on a methodology acceptable to the entire membership. Sri Lanka, however, supports the principle of capping on high tariffs to create a basis for true market access in all markets.

On non-agriculture market access, Sri Lanka has always recognized that application of a non-linear tariff cutting formula and sectoral approach are essential components to achieve the high level of aspiration of the DDA. However, I agree with you that ambitious formula for tariff cutting should include sufficient flexibility so that the methodology will work for all. While we share your view that sectoral negotiations remain integral to our overall results of NAMA, the solution to dispute over "mandatory" sectoral approach vs. "voluntary" on sectoral negotiations, we need to explore the middle ground you have proposed defining an approach to "critical mass" participation for sectorals. We also need to provide flexibility for developing countries specially those disadvantaged developing countries who have undertaken substantial tariff reduction on autonomous basis.

On services, Sri Lanka always maintained the position that liberalization of services in particular infrastructural services could contribute to growth and development strategies including international competition in manufacturing and agricultural sectors. We ourselves have already submitted initial offers and intend to submit revised offers as negotiations progress. We need to focus more on market access components on service negotiations and as you have suggested could agree for a near-term goal of meaningful offers from a majority of WTO members.

On Singapore issues, which led to a breakdown of negotiations in Cancun, we need a pragmatic approach. Hence, I share your view that we should first concentrate on most useful and least divisive issues. If not, reaching a consensus on these issues will remain elusive. As you would recall, Sri Lanka, in the pre- Cancun process as well as in Cancun, supported un-bundling of the four issues and commencing negotiations on trade facilitation and transparency in government procurement. However, since many developing countries seem to have taken a strong opposition to commencing negotiations on all four issues, your suggestion to progress by agreeing to negotiations, firstly on trade facilitation and if it is

possible to reach consensus to support further work on transparency in government procurement, perhaps is the most pragmatic way to move the process forward and to break the current deadlock. Sri Lanka would support this approach and will be flexible on investment and competition either to drop them all together or to refer them to working groups for further reflection.

On the issue concerning special and differential treatment, I believe that we have come to a point, where we need to break away from conventional approach to S & D treatment in the WTO. Automatic application of every provision to all WTO membership has become outmoded; as you have suggested, we need to design flexibilities for countries who have specific problems related to specific negotiating areas Sri Lanka supports this approach.

Let me conclude by applauding you for the constructive leadership that you have shown to re-start the DDA. However, willingness of others to move forward by signaling preparedness to undertake commitments, exercising flexibility to find compromised solutions, US-EU partnership and constructive leadership by both leading trade nations in developed and developing countries are critical to our progress. Sri Lanka in Pre-Cancun and at Cancun supported your initiatives. We stand ready to support your new initiative. I agree with you that the year 2004 should be a result oriented year and should not be a lost year. I totally endorse your proposal that we agree to meet in September in Hong Kong to take critical decisions to conclude the Doha round in time.

I have had the pleasure of attending the International Conference on Global economic governance and challenges of multilateralism held in Dhaka recently. This was a most useful opportunity for me to exchange views with my counterparts from the South & East Asian region on the multilateral trade regime in post-Cancun perspective as well as strongly urge for the advancement of the DDA by the WTO membership. (Copy of my speech delivered at the Conference is attached.) I will also be closely monitoring the progress that we make on the DDA and my team - Director General of Commerce, and my Ambassador, PR to WTO in Geneva will work very closely with your team to extend support wherever possible to realize our shared vision to conclude the Doha round on time.

Yours sincerely,
Ravi Karunanayake
Minister of Commerce & Consumer Affairs

End Text

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